

GENERAL INFORMATION

The Community Reinvestment Act (“CRA”) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution’s record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution’s record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of First Community Bank, Glasgow, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution’s supervisory agency, as of September 8, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION’S CRA RATING: This institution is rated “Satisfactory.”

Several factors support the bank’s satisfactory rating. First, the bank lends significant amounts to small businesses and farms and to borrowers of different income levels. Second, the geographical dispersion of the bank’s loans appears reasonable. The bank also maintains a reasonable loan-to-deposit ratio and has made a large percentage of its loans within its assessment area.

DESCRIPTION OF INSTITUTION

Based on its size and financial condition, the bank is able to meet the credit needs of its assessment area effectively. The bank was rated satisfactory in helping to meet the credit needs of its community at its previous CRA evaluation. The bank operates full-service offices in Glasgow, Wolf Point, and Hinsdale, Montana; in April 1996, it acquired and merged, as a branch office, a bank in Culbertson, Montana. With the exception of the Culbertson office, each office has drive-through facilities. The bank also owns and operates three automated teller machines ("ATM"), one of which is open 24 hours and accepts deposits. The other two ATMs dispense cash, but do not accept deposits. The bank has not closed any branches since the last evaluation.

According to the bank's June 30, 1997, Report of Condition ("ROC"), the bank's assets totaled approximately \$107.4 million. Its June 30, 1997, ROC indicates the bank's major loan category is agricultural lending; agricultural loans constituted approximately 53% of the bank's loan portfolio. The balance of the bank's lending portfolio is composed of 17% consumer, 16% commercial, and 14% residential real estate loans. The composition of the bank's loan portfolio reflects the level of demand for the specific types of loans in the assessment area.

The bank offers a variety of loan products to fulfill the needs of residents, businesses, and farms within its assessment area. Its products include agricultural, business, and consumer loans. It originates consumer real estate loans for residential one- to four-family dwelling units, housing rehabilitation, and home improvement. It also offers loans to political subdivisions. In addition, the bank is active in Farm Service Agency ("FSA"), Small Business Administration, Federal Housing Administration, Department of Veterans Affairs, FSA residential real estate, and Rural Development Agency Rural Housing Service loan programs. The bank does not participate in any government-guaranteed student loan programs. The bank's loan products appear appropriate for the credit needs of the communities in its assessment area.

DESCRIPTION OF FIRST COMMUNITY BANK'S ASSESSMENT AREA

The bank has defined its assessment area as Valley and Roosevelt counties in northeastern Montana. Based on the 1990 U.S. Census, the population for the assessment area is approximately 19,238. The assessment area contains block numbering areas ("BNA") 9510, 9511, and 9512 in Roosevelt County and BNAs 9546, 9547, 9548, 9549, 9550, 9551, and 9557 in Valley County. BNAs 9511, 9549, and 9550 are designated as moderate-income areas, while BNA 9551 is designated as an upper-income area. The remaining BNAs are considered middle-income areas. BNA 9557 is defined as a low-income area; however, it has no population as it is an area formerly occupied by a military base. The bank's offices in Glasgow, Hinsdale, Wolf Point, and Culbertson are found in BNAs 9548, 9547, 9512, and 9510, respectively.

The Fort Peck Indian Reservation ("Reservation") occupies BNAs 9550, 9511, and 9512. It covers about 1,456 square miles (931,792 acres) in Valley, Roosevelt, Daniels, and Sheridan counties in northeastern Montana. The Reservation is home to two tribes: the Assiniboine and the Yanktonai and Sisseton Wahpeton Sioux tribes. The Reservation's main population settlements are in the valley of the Missouri River, along U.S. Highway 2. The largest city on the Reservation is Wolf Point, while the largest off Reservation city within the assessment area is Glasgow, located about 15 miles west of the southwest corner of the Reservation.

CRA divides income levels into four categories: low, moderate, middle, and upper. Because the bank's assessment area is not in a metropolitan statistical area, the categorization of a borrower's or BNA's income is determined relative to the statewide nonmetropolitan median family income. Low-income individuals have incomes of less than 50% of the statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines a middle-income person as one with an income of at least 80% but less than 120% of the statewide nonmetropolitan median family income. An individual with an income that is 120% or more of the statewide nonmetropolitan median family income is considered an upper-income person. According to the 1997 updated data, the statewide nonmetropolitan median family income in Montana is \$36,100; this figure is used to clarify income levels of borrowers. BNAs are classified using similar categories based on the level of the median family income in the geography compared with the 1990 statewide nonmetropolitan median family income of \$27,352.

According to 1990 census data, the assessment area's median family income is \$24,360, while its median household income is \$20,519. There are 5,054 families and 6,932 households in the assessment area. Approximately 18% of the families and 21% of the households in the assessment area have incomes below the poverty level. Families and households with incomes below the poverty level represent a larger percentage of the assessment area's population than the State's population of which 12% of the families and 16% of the households have incomes below the poverty level. The following table summarizes the distribution of household and family income for the assessment area.

PERCENTAGES OF ASSESSMENT AREA POPULATION BY INCOME LEVEL				
<i>Unit of Measure</i>	<i>Low Income</i>	<i>Moderate Income</i>	<i>Middle Income</i>	<i>Upper Income</i>
Households Compared to Median Household Income	28%	16%	19%	37%
Families Compared to Median Family Income	27%	18%	22%	33%

The percentage of low-income families and households exceeds the representation of such families and households in the state's nonmetropolitan areas. In these areas, 20% of the families and 24% of the households have low incomes.

As previously discussed, BNAs are also classified by income levels. Moderate-income BNAs represent 30% of the assessment area's BNAs, and 10% of the BNAs are considered upper income. There is one low-income BNA; however, it has no residents. Approximately 33% of the assessment area's families and 29% of its households reside in moderate-income BNAs. The middle-income areas are home to 63% of the assessment area's families and 67% of its households. The balance of the population resides in the upper-income BNA.

According to community contacts and bank management, the assessment area's major industry is agriculture, consisting mostly of farms with some ranches. Primary products include wheat, barley, and oats. Using irrigation, farmers can grow alfalfa and hay. Overall crop prices have been average. Wheat prices have been around \$3.80 per bushel, while the ideal price for farmers is \$4.00 per bushel. Durum wheat (used in making pasta) is selling at approximately \$5.00 per bushel.

Livestock production is devoted mostly to beef cattle. Beef prices were low a year ago, making 1996 a tough year for cattle producers. In addition, there was a very bitter winter last year, and many cattle died from the severe conditions. Fortunately, a federal emergency livestock indemnity program provided some financial help to local ranchers hardest hit by the severe weather conditions; however, many ranchers are still trying to recover financially and have so much debt that lost cattle cannot be replaced. Beef prices are higher this year, indicating some improvement in ranchers' financial position is likely.

The local banking environment is very competitive. One community contact stated the availability of credit is good. One contact also stated that local residents drive distances of 40 miles to obtain necessary goods and services, including banking services. There are financial institutions in Plentywood, Sydney, Poplar, Froid, and Wolf Point, Montana, where people can do their banking. To obtain favorable credit terms and services, some residents are willing to drive longer distances. In addition, there are several nonbank entities, such as brokerage firms, that compete with banks for deposit customers.

Examiners contacted a representative of the tribal government, a federal agency employee, and a local business association employee as part of the bank's CRA evaluation. The tribal government contact provided information regarding the credit and housing needs of tribal members on the Reservation. The federal agency employee provided information regarding the local economy and agricultural market. The local business association member also provided information regarding the local economy. Examiners used information from these contacts as well as information from bank management to evaluate the bank's CRA performance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs in its assessment area is satisfactory. Much of the analysis on the following pages is based on a statistical sample of 139 consumer, 121 agricultural, and 55 commercial loans originated by the bank in the 12 months preceding the evaluation. In assigning the overall rating, greatest weight was placed on the bank's lending to borrowers of different income levels and to businesses and farms of different sizes and on its lending to geographies in its assessment area. These factors most closely measure the bank's efforts to meet the credit needs of all segments of the assessment area.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's loan-to-deposit ratio meets the standards for satisfactory performance. Based on quarterly ROC data, the bank's quarterly average net loan-to-deposit ratio since the previous evaluation is 59%.

The following chart, based on quarterly ROC data since the previous evaluation, shows that the bank's net loan-to-deposit ratio has ranged from 51% to 67%.

DATE	NET LOANS (IN THOUSANDS)	DEPOSITS (IN THOUSANDS)	NET LOAN-TO-DEPOSIT RATIO
December 31, 1995	\$41,510	\$81,057	51%
March 31, 1996	\$41,442	\$78,430	53%
June 30, 1996	\$52,044	\$92,198	56%
September 30, 1996	\$56,323	\$88,620	64%
December 31, 1996	\$56,622	\$96,012	59%
March 31, 1997	\$55,696	\$88,731	63%
June 30, 1997	\$60,926	\$90,356	67%

As mentioned previously, the bank acquired its Culbertson branch in April 1996. This acquisition is the primary factor in the increase of net loans and deposits between March 31 and June 30, 1996. Since December 31, 1995, the bank's total assets, net loans, and deposits have fluctuated, reflecting the normal business cycles of the predominantly agricultural economy.

According to the June 30, 1997, Uniform Bank Performance Report ("UBPR"), the bank's net loan-to-deposit ratio was 67%, which placed the institution in the 32nd percentile of its national peer group.

The bank is substantially larger than most financial institutions in its assessment area. The bank's quarterly average net loan-to-deposit ratio compares favorably with the quarterly average ratios of many of its assessment area competitors. Based on the quarterly ROC data from December 31, 1995, to March 31, 1997, the following table identifies the asset size and quarterly average net loan-to-deposit ratio for the bank and its competitors.

BANK AND LOCATION	TOTAL ASSETS (AS OF MARCH 31, 1997) (IN THOUSANDS)	QUARTERLY AVERAGE NET LOAN-TO-DEPOSIT RATIO
First Community Bank Glasgow, Montana	\$105,197	58%
Western Bank of Wolf Point Wolf Point, Montana	\$ 40,587	46%
Montana State Bank Plentywood, Montana	\$ 38,001	48%
Citizens State Bank of Scobey Scobey, Montana	\$ 31,518	62%
Traders State Bank of Poplar, Montana Poplar, Montana	\$ 26,543	47%
Valley Bank of Glasgow Glasgow, Montana	\$ 19,406	78%
First State Bank of Froid Froid, Montana	\$ 12,593	46%

Given the assessment area's sparse population, the number of financial institutions operating within or near the bank's assessment area creates a very competitive credit market for the types of loans offered by the bank. Also, three large regional financial institutions operate branch offices and five brokerage firms have offices in the assessment area. As the data in the table illustrates, only two banks have higher average quarterly net loan-to-deposit ratios than the subject bank. The other four banks have ratios that are significantly lower than the subject bank's. Finally, the June 30, 1997, UBPR indicates the statewide average net loan-to-asset ratio for Montana banks was 63.83%. The average for all Montana banks with assets over \$100 million is 64.24%. On the same date, the bank's net loan-to-asset ratio was 56.75%, indicating that the bank devotes slightly fewer of its assets to loans than similarly sized institutions in Montana.

As reflected in the competitor data, it appears the demand for credit in the assessment area is not as strong as statewide demand. Nevertheless, numerous financial institutions are competing for existing loan activity. Community contacts consistently indicated there are no unmet credit needs. Based on the bank's loan-to-deposit ratio relative to local competitors and statewide and national peers and the lack of identified unmet credit needs, the bank's loan-to-deposit ratio is reasonable and, therefore, meets the standards for satisfactory rating.

DISTRIBUTION OF CREDIT WITHIN THE ASSESSMENT AREA

The bank's lending in the assessment area is satisfactory. A review of the statistical sample of loans originated by the bank during the 12 months preceding the evaluation reveals that the bank originates a majority of its loans inside the assessment area. The following table shows the percentage of loans within the assessment area based on total number and dollar amount in each major loan category.

PERCENTAGES OF LOANS IN THE ASSESSMENT AREA		
Major Loan Product Line	Total Number of Loans	Total Amount of Loans
Consumer Loans	87%	82%
Small Farm Loans	79%	64%
Small Business Loans	91%	95%

As evidenced by the data, a substantial percentage of the bank's loans are extended to people and entities within the assessment area. However, a fairly sizable percentage of the bank's small farm loans were made outside the assessment area. Since over 50% of the bank's loan portfolio is in agricultural loans, this category is given greatest weight in assigning the rating to this category. Based on the high concentration of consumer and small business loans within the assessment area and the acceptable level of small farm loans in the assessment area, the bank's lending performance for this category meets the standards for satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

The bank's level of lending to individuals of different incomes and to businesses and farms of different sizes meets the standards for satisfactory performance. As discussed previously, the CRA classifies income levels into four categories: low, moderate, middle, and upper. Based on 1990 census data, the

median household and family incomes for the bank's assessment area are \$20,519 and \$24,360, respectively. Both figures are below Montana's statewide nonmetropolitan household and family figures of \$22,345 and \$27,352, respectively. The low median income levels in the assessment area reflect the Reservation's economy; according to a community contact, the unemployment rate for residents eligible for work is approximately 60% to 70%. In 1990, the unemployment rate in the assessment area was 10.1%, compared with 7.3% for nonmetropolitan areas in Montana.

The following table shows the percentage of all consumer loans made to borrowers of different income levels.

DISTRIBUTION OF LOANS BY BORROWER INCOME LEVEL IN THE ASSESSMENT AREA*				
Loan Type	Low Income	Moderate Income	Middle Income	Upper Income
ALL CONSUMER				
Percentage of Total Loans	24%	24%	30%	22%
Percentage of Total Loan Amounts	14%	19%	28%	39%
*Income level is determined based on Montana's 1997 statewide nonmetropolitan family income of \$36,100.				

The consumer loan data, based on a statistical sampling of loans originated during the 12 months preceding the evaluation, reveal the bank extends a considerable portion of its consumer loans to low- and moderate-income borrowers. However, it should be noted that income information was available for only 31% of the consumer loans sampled, and the above data should not be judged as absolute. According to the 1990 census data, low- and moderate-income households comprise 44.1% of the bank's assessment area and, more specifically, represent 27.9% and 16.2% of the households, respectively. Low-income families represent 26.9% of the assessment area's population while moderate-income families represent 17.8%. Based on the available information, the bank's consumer lending to low-income borrowers appears less than expected given the assessment area's demographics. Conversely, its lending to moderate-income borrowers is higher than expected; this is noteworthy in light of the heavy competition in the area. In combination, the bank's consumer lending to low- and moderate-income people appears reasonable given the assessment area's demographics. To serve the credit needs of these people, the bank is willing to extend small consumer loans.

Due to the nature of local demographics, all the agricultural loans sampled were to operations grossing less than \$1 million in annual revenues. Of these loans, 95% were for amounts less than or equal to \$100,000, 4% were for loan amounts over \$100,000 and less than or equal to \$250,000, and 1% were for amounts over \$250,000 and less than or equal to \$1,000,000. Additionally, 92% of the sampled commercial loans were to businesses grossing less than \$1 million in annual revenues. Of these loans, 91% were for amounts less than or equal to \$100,000, and 9% were for loan amounts over \$100,000 and less than or equal to \$250,000. The concentration of small farm and small business loans in the bank's loan portfolio appears to be consistent with the bank's asset size and legal lending limit. It also reflects the structure of the assessment area's business and farm market.

The bank is willing to extend loans to borrowers of different income levels and to businesses and farms of various sizes. Based on a limited sample of loans, its consumer lending activity appears reasonable given

the assessment area's demographics. Further, most of the bank's small business and farm loans are to entities that have gross annual revenues of \$1,000,000 or less; however, this is expected given the commercial and agriculture market in which the bank operates. Given the bank's level of lending to low- and moderate-income consumers and the concentration of loans to small farms and businesses, its distribution of loans by income level meets the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans among geographies of different income levels is considered reasonable and meets the standards for satisfactory performance. The table discloses the bank's penetration in the assessment area's moderate-, middle-, and upper-income BNAs.

DISTRIBUTION OF LOANS IN ASSESSMENT AREA BY BNA INCOME LEVEL*			
Type of Loan	Moderate Income	Middle Income	Upper Income
All Consumer			
Total Number of Loans	25%	73%	2%
Total Amount of Loans	32%	67%	1%
Small Business			
Total Number of Loans	10%	86%	4%
Total Amount of Loans	2%	96%	2%
Small Farm			
Total Number of Loans	17%	81%	2%
Total Amount of Loans	12%	86%	2%
*The bank's assessment area has one low-income BNA, which has no residents. Consequently, the bank has no lending activity in BNA 9557.			

According to 1990 census data, the total population of the moderate-income BNAs is 6,704 persons. These areas comprise 35% of the assessment area's total population. Two of the assessment areas moderate-income BNAs are within the Reservation borders. The tribal contact stated that tribal members primarily conduct their banking at a financial institution in Poplar, located on the Reservation.

As previously discussed, the BNAs that make up the bank's assessment area are classified as moderate, middle, and upper income. There is one low-income BNA in the assessment area; however, it has no residents. The following table compares the BNAs' median family incomes to the nonmetropolitan median income for the state of Montana.

COMPARISON OF MEDIAN INCOMES BY GEOGRAPHY (BNA)		
<i>BNA and Income Classification</i>	<i>Median Family Income</i>	<i>Percentage of Statewide Nonmetropolitan Median Family Income</i>
9511 - moderate	\$19,713	72
9549 - moderate	\$16,250	59
9550 - moderate	\$15,966	58
9510 - middle	\$25,183	92
9512 - middle	\$23,429	86
9546 - middle	\$31,042	113
9547 - middle	\$24,667	90
9548 - middle	\$28,360	104
9551 - upper	\$36,528	134
The 1990 census statewide nonmetropolitan median family income for Montana is \$27,352.		

As shown above, several assessment area BNAs share the same income classification; however, the median family income levels vary significantly. The variance in the moderate-income BNAs is 23%, and in the middle-income BNAs it is 56%. The last column shows the percentage of a particular BNA's median family income in relation to the statewide nonmetropolitan median family income. As previously mentioned, CRA classifies an area as moderate income when its median family income is between 50% and 79.99% of the statewide nonmetropolitan median family income. The percentages indicate that the median family incomes of BNAs 9549 and 9550 are at the low end of the moderate-income group. According to 1990 census figures, BNA 9549 had a population of only 58 residents. BNA 9550, with a population of 1,212, consists of the rural areas of the Reservation between Wolf Point and Glasgow. Community contacts stated that the incomes on the Reservation are generally low, and the rate of unemployment is high. In contrast, the median family income for BNA 9511 is in the mid to high end of the moderate-income group.

The majority of the bank's lending is in BNAs 9512, 9510, and 9548, which are where the Wolf Point, Culbertson, and Glasgow offices are respectively located. The loan data show that the bank extends many consumer, small business, and small farm loans in BNA 9511, which surrounds the city of Wolf Point. As expected, lending would be most heavily concentrated in Glasgow and Wolf Point, the two largest cities in the assessment area. The office in Culbertson was an active, independent banking office before it was acquired and converted into a branch office.

In addition, there are several BNAs with low levels of lending activity. The BNAs with the lowest lending percentages are also those with the fewest residents.

The bank's loan penetration throughout the assessment area is considered reasonable given the demographics of these areas and the competitive banking environment discussed earlier in this evaluation. Based on these factors, the bank meets the standards for satisfactory performance in this category.

GENERAL

The evaluation did not reveal any violations of the substantive provisions of the fair housing and fair lending laws and regulations. It did reveal a technical exception of the fair housing law. During the examination, management promised to correct the violation. The bank has not received any CRA complaints since its last evaluation.

PUBLIC DISCLOSURE

September 8, 1997

Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Community Bank

Name of Depository Institution

093004500000

Identification Number of Institution

Glasgow, Montana

Address of Institution

Federal Reserve Bank of Minneapolis
250 Marquette Avenue
Minneapolis, Minnesota 55401-2171

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.